

Message Text

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R 270706Z FEB 75

FM AMEMBASSY KUWAIT

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AMEMBASSY SINGAPORE

AMCONSUL HONG KONG

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DEPT PASS EXIMBANK, COMMERCE FOR MEPD

E.O. 11652: N/A

TAGS: BEXP, EINV, KU ID

SUBJECT: POSSIBLE KUWAITI INTEREST IN INDONESIAN SUGAR VENTURE

REF: (A) KUWAIT 475 (B) JAKARTA 2080

SUMMARY: EMBASSY WILLING TRANSMIT SUGAR MILL INVESTMENT PROPOSAL TO POTENTIAL KUWAITI INVESTOR. KUWAITIS MAY BE INTERESTED BUT THIS WILL DEPEND ON WHO ELSE INVOLVED AND PROSPECTS FOR PROFITABILITY OF PROJECT. END SUMMARY.

1. FOLLOWING ARE EMBASSY COMMENTS REQUESTED REF B. WE WILLING TRANSMIT PROPOSAL TO APPROPRIATE KUWAITI FINANCIAL INSTITUTION IF EMBASSY JAKARTA SO DESIRES. WOULD BE HELPFUL TO HAVE NAMES OF B OF A, EXIMBANK OR OTHER USG OR AMERICAN INDIVIDUALS INVOLVED WITH WHOM KUWAITIS COULD CONSULT WHICH THEY LIKELY TO WISH TO DO.

2. FIRST QUESTION WE LIKELY TO BE ASKED IS "WHAT DOES USG THINK OF PROJECT?" IF EXIMBANK, OPIC OR SOME OTHER USG AGENCY INVOLVED KUWAITIS CAN BE EXPECTED TO LOOK MORE FAVORABLY ON PRO-

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JECT THAN IF NO USG AGENCY PARTICIPATING IN ANY WAY. NEXT BEST

THING WOULD BE TO HAVE MAJOR, WELL-KNOWN AMERICAN FINANCIAL INSTITUTION, SUCH AS B OF A, INVOLVED. KUWAITIS WOULD THEN WISH TO CONSULT WITH REPS OF SUCH INSTITUTIONS ABOUT PROJECTS AND IF POSSIBLE OBTAIN FEASIBILITY STUDIES FROM THEM FOR THEIR OWN REVIEW.

3. RE QUERY PARA 8 REF B REGARDING KUWAITI INTEREST IN EQUITY, WE WISH NOTE THAT KUWAITI INVESTMENT INSTITUTIONS ARE NOT COMMERCIAL BANKS WHICH TRADITIONALLY BORROW AND LEND FUNDS. THEY MORE AKIN TO MERCHANT BANKS, AND IN KUWAIT IT IS GOK WHICH ULTIMATELY HOLDS MOST DEBT PAPER THAT DOES EXIST HERE. KUWAITIS MUCH PREFER FIXED RATE, NEGOTIABLE BONDS TO FLOATING RATE, NON-NEGOTIABLE SYNDICATED DEBT. THUS EUROBONDS PREFERABLE TO PARTICIPATING IN LOAN FINANCING FOR SPECIFIC VENTURE, PARTICULARLY IN LDC SUCH AS INDONESIA. EVEN IN EUROBOND ISSUES, KUWAITI INSTITUTIONS, WHICH DURING 1974 WERE AMONG MOST ACTIVE UNDERWRITERS AND MANAGERS, GOVERNMENTS, GOVERNMENT AGENCIES AND AAA CORPORATIONS PREFERRED. ALTHOUGH UNLIKELY THAT INDONESIAN BORROWER COULD MEET CREDENTIALS KUWAITIS LOOKING FOR, EQUITY INVESTMENTS ARE THOUGHT TO CONTAIN POSSIBILITIES OF LONG TERM GROWTH. KUWAITIS PERCEIVE THAT AFTER AN INITIAL PERIOD THEY CAN LOOK FORWARD TO SOMETHING MORE TANGIBLE THAN MERE MONEY IN RETURN FOR THEIR INVESTMENT. ONLY OWNERSHIP, EVEN IF PARTIAL, WILL ALLOW THIS. IN ADDITION, EQUITY COULD PROVIDE A TAP ON RESOURCES; E.G., KUWAITIS MAY WISH TO GAIN ACCESS TO SUGAR PROBABLY AT A SPECIAL PRICE IN DEAL PROPOSED. DEPENDING ON SPECIFICS, ACTUAL EQUITY PACKAGE COULD BE DONE IN VARIOUS WAYS THAT COULD, FOR EXAMPLE, INVOLVE CONVERTIBLE DEBENTURES, CONCESSIONARY FINANCING OR OTHER SUCH DEVICES.

4. IN FINAL ANALYSIS, KUWAITIS WILL BE GUIDED MAINLY BY COMMERCIAL CONSIDERATIONS. IN PRINCIPLE THEY WILLING MAKE EQUITY INVESTMENT IN INDONESIA. ONCE SPECIFIC DEAL IS DISCUSSED, WHETHER THEY WILL INVEST WILL DEPEND ON PROSPECTS FOR EARNING PROFITS, STRENGTH OF PROJECT, AND WHO ELSE INVOLVED. IF LACK OF EXPORT PRIVILEGES, FOR EXAMPLE, IF ENTERPRISE AS A COMMERCIAL BUSINESS LIKELY TO BE HAMSTRUNG BY LOCAL REGULATIONS SO THAT OUTLOOK FOR PROFITS IS DIMMED, KUWAITIS UNLIKELY TO BE ATTRACTED TO SPECIFIC PROJECT.

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5. OUR BEST ESTIMATE BASED ON REF B IS THAT SPECIFIC PROJECT MAY BE OF INTEREST TO KUWAITIS, BUT THAT THEY WILL WANT MORE DETAILED INFO. IF EMBASSY JAKARTA DECIDES FORWARD PROPOSAL WE SHALL BRING IT TO ATTENTION OF KUWAIT FOREIGN TRADING, CONTRACTING AND INVESTMENT COMPANY WHICH IS LOCAL AGENCY MOST INTERESTED IN INVESTING IN LDCS. WE SHALL ALSO INFORM GOK DIRECTOR OF INVESTMENTS KHALED ABU SU'UD OF PROJECT AND THAT WE BRINGING PROPOSAL TO KFTCIC. WE MAY ALSO MENTION IT TO KUWAIT INVESTMENT

COMPANY WHICH WILL START A JOINT VENTURE INVESTMENT COMPANY IN HONG KONG SOON, BUT WE DOUBT THEY READY YET TO LOOK SERIOUSLY AT INDONESIA. WE ANTICIPATE KUWAITIS WILL WANT TO BE PUT IN TOUCH WITH B OF A, EXIM OR OTHER AMERICANS. IF THEY INTERESTED THEY MAY WISH TO SEND SOMEONE TO INDONESIA FOR TALKS WITH APPROPRIATE LOCAL OFFICIALS OR BUSINESSMEN.

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